



1924

Economic Conditions
Governmental Finance
United States Securities

New York, September, 1924

General Business Conditions

THE improvement in business sentiment noted in the latter part of July became more widespread during August and, in the main, has been supported by changes in the industrial situation. The low point of activity for many of the major industries appears to have been reached in June and July, and the outlook is encouraging for more active business during the Autumn months. The figures for iron and steel production showed the July totals to be the smallest since the winter of 1921-22, but the rate of operations increased gradually during the latter part of that month, and Judge Gary has stated that for the Steel Corporation at least the rate of new orders in the first three weeks of August was 10 per cent ahead of the July rate. While it is true that the steel industry is still operating at a very low rate, the turn for the better is none the less significant, particularly as it has been accompanied by similar developments in other industries.

In the automobile industry, where the curtailment was rapid and drastic during the spring and early summer, there have again been signs of an expanding tendency in operations. Building construction, which has been a mainstay during the recent business reaction, gives no sign of marked diminution, the July total of contracts reported for the 36 States by F. W. Dodge Corporation being 10 per cent. larger than last year. Bituminous coal mining continues much depressed, but the output is increasing gradually, and in the week of August 23 was the largest since March.

The textile industry has been one of the darkest spots in the business situation, but here too the effects of reduced stocks are becoming manifest. That there is nothing radically wrong with consumer demand is indicated by an 8 per cent increase in the total July sales of department stores in this district over a year ago. Raw silk has been improving steadily, and broad silk mills have been gradually increasing operations. In New England, cotton mill operations have been on a gradual

up-grade since July, and reports recently have indicated increased activity in many mills in this State and in the South which have been closed down or running part time. In this industry a decline during the past month in the price of the raw material has been helpful. The shoe business has also picked up, and both in New England and in this district many plants are more active. In the second week of August the Endicott-Johnson factory, near Binghamton, New York, resumed full time operations after running on a curtailed schedule in recent months.

While the volume of railway traffic continues much below last year, due chiefly to smaller loadings of coal, the loadings of merchandise and miscellaneous freight, which reflect largely manufactured products, have increased in recent weeks and have again exceeded those of last year for the first time since April. Bank debits continue to make a remarkably favorable comparison with 1923. Notwithstanding that the general level of prices is substantially lower, the volume of check payments outside of New York in the first four weeks of August was 2 per cent larger than in the same period of a year ago. Throughout the summer and spring the testimony of bank debits has been that notwithstanding a large falling off in some of the major basic lines of manufacture the total volume of business of the country has been maintained at a level not far below that of last year. Probably the continuation of active building has been the largest single factor in sustaining business; but it is apparent also that the great bulk of the country's industrial, commercial, and agricultural activities has varied far less than would seem to be indicated by the changes in some of the widely fluctuating individual basic lines.

Although improving crop prospects have checked the rise in prices of agricultural products, the prices of grains and livestock are still at levels which could scarcely have been hoped for in the West several months ago, and this continues to be a source of great optimism throughout the country. Prices of such indus-

trial materials as copper, lead, pig iron, lumber, rubber, hides, and wool have been firmer, and the natural tendency of these advances is to encourage a resumption of buying, as consumers ordinarily hold off until they feel that the turn of prices has been reached, and then the movement tends to be cumulative in the other direction.

Money and Banking

After a continuation of marked ease during the early part of August the money situation has become slightly firmer, as harvesting has progressed and the preparations for fall trade are under way. New York banks have lost some funds to the interior and money rates are somewhat higher. Open market rates for commercial paper averaging $3\frac{1}{4}$ - $3\frac{1}{2}$ per cent are a little above a month ago, and bank acceptances have advanced from 2 to $2\frac{1}{4}$ per cent.

The loans classified as "Commercial loans" of the 750 member banks in leading cities that report weekly to the Reserve banks have had a moderate increase since the first of August. As in past months, however, the banks have had to look to the security markets for the employment of the major proportion of their increasing deposits, and both investments in securities and loans on stock exchange collateral have made further large advances.

With gold imports continuing, though at a somewhat reduced rate, the position of the Reserve banks has been very easy. The amount of member bank borrowing from the Reserve banks declined during the month to the lowest point since 1917, while member bank balances with the Reserve banks were increased through gold imports and receipts of other funds to the highest levels on record. Late in the month the larger trade and agricultural demands resulted in some decrease in reserve balances and a slight increase in the total of reserve bank credit outstanding.

As a result of the easy money conditions prevailing, August, which is usually looked upon as a dull month in the investment banking business, proved to be one of the most active months so far this year. The new issues during the month included large amounts of bonds of foreign governments, industrial, public utility and railway corporations, and States and Municipalities. Apparently the new securities have been quickly absorbed, due to the very strong investment demand. At the close of the month there appears to be only an extremely small supply of undigested securities in the hands of dealers.

With the return of vacationists after Labor Day, it is expected that the slight reaction in the bond market which was noticeable in the latter part of the month will prove to be

merely a temporary breathing spell. Investment bankers generally are looking forward to an increasing demand for securities during the fall months, and they expect their biggest problem will be to obtain a sufficient amount of securities to supply the demand.

The Dow-Jones figure for the combined average of 40 bonds (10 high grade rails, 10 second grade rails, 10 industrials, and 10 public utilities) was 90.15 on August 27, compared with 91.32 on July 28, 88.25 on January 28, and 87.24 on August 27 last year.

Agricultural Situation

The most important factor in the business situation at this time of the year is the crops and their prospective money value. The most important crops, excepting corn, promise a larger yield than last year. The government reports upon conditions and prospects as of August 1st indicate yields as given below in comparison with the final figures of production in 1923, except in the case of cotton, for which the estimate is based on conditions of August 16th.

The Department of Agriculture in its crop estimate bulletin dated Aug. 7, 1924, states the August forecast of the Department's Crop Reporting Board, compared with harvested crops of 1923 as follows:

	Total production in millions of bushels	
	Forecast August 1924	Harvested 1923
Winter wheat	589	572
Spring wheat	225	213
All wheat	814	786
Corn	2,576	3,046
Oats	1,439	1,300
Barley	184	198
Rye	65.8	63.0
Buckwheat	15.1	13.9
Potatoes, white	399	412
Sweet potatoes	80.8	97.2
Tobacco, lbs.	1,202	1,491
Flax seed	28.4	17.4
Rice	32.9	33.3
Hay, tame, tons	89.0	89.1
Apples, total	184	197
Apples, com'l bbls.	29.4	34.3
Peaches, total	52.2	45.7
Peanuts, lbs.	636	636

The wheat crop has mounted upward in quantity and value as threshing returns from nearly all localities east of the Rocky Mountains have revealed its exceptional excellence both in yield and quality. This is true of both winter and spring varieties. With a total of 53,818,000 acres in crop, against 58,308,000 acres in 1923, the government's estimate is 814,000,000 bushels against 786,000,000 bushels last year, and there is a probability that the final estimate for this year will be still higher.

The corn crop has been favored with some hot weather in the past month, and has made progress, but its outcome is dependent upon September. It cannot make a full crop, but there are good judges who think it may make

2,800,000,000 bushels of better corn than was obtained from last year's crop, which was rated at over 3,000,000,000 bushels. It is far from that point as yet, however, and every downward dip of temperature from now on is a menace.

The oat crop matured with a large acreage yield and fine quality, but in some localities has suffered from rain in the shock. With heavier weight, larger yield, and a price about 20 cents per bushel above that of last year, the oat crop is much more satisfactory.

The grain exports of the United States in the twelve months ended with June last were as follows:

Articles	Twelve Months Ending June	
	1924	1923
Wheat (bu.)	78,793,034	154,950,971
Corn (bu.)	21,186,344	94,064,053
Rye (bu.)	17,704,561	51,411,550
Oats (bu.)	1,148,776	18,573,603
Barley (bu.)	11,208,733	18,192,809
Rice (lbs.)	190,616,142	318,940,870
Wheat flour (bbl.)	17,252,620	14,882,714

The cotton crop has been making decided progress and now promises the largest yield since 1920, when the final figures were 13,439,603 bales. After all the discouraging talk that has been current about the boll weevil, he does not appear to have been a very serious factor this year. However, he has not disappeared, and no doubt his toll in the aggregate is not inconsiderable. Hot and dry weather reduces his activities.

The Trend of Prices

The markets have been excited and subject to wide fluctuations with the crop news from day to day. Wheat is the crop most affected by foreign competition, and our strongest competitor is Canada. The Dominion Bureau of Statistics estimated the Canadian crop at 282,042,000 bushels, as of August 1, which compares with 474,199,000 bushels last year. The oat crop is down about one-third from last year. The wheat crop of the northern hemisphere is estimated by our Department of Agriculture as 10 to 13 per cent less than last year. Asia, which has been taking considerable flour from Canada and our Pacific Coast, has less home-grown wheat than last year and Europe has less. The Russian government states that its crops are about the same as last year and that there will be about the same quantity of grain for export. There are reports of larger acreage in Argentina and Australia, but it is too early to know much about the probable yield in those countries. The margin of probable supplies over estimated demands is small, which makes the market situation decidedly different from what it was last year. Wheat in Chicago is now about 20 cents per bushel higher than a year ago, and in Winnipeg about

25 cents higher, which is because it was higher in Chicago in relation to European markets last year than now.

The wholesome respect that the market traders have for the law of supply and demand has been illustrated by the price of corn. The consumption demand for corn is a fairly definite amount, but what the supply for the coming year is going to be is anybody's guess. The result is that when the weather bureau hints at frost, prices jump toward the sky and when the weather warms up they recede as rapidly.

The price of October cotton is down about 5 cents per pound from what it was early in July, as a result of the improved condition of the crop. If a 13,000,000 bale crop is confirmed prices probably will work still lower, although in view of low world stocks of cotton and cotton goods there is no warrant for cheap cotton. Secretary Hester, of the New Orleans Cotton Exchange estimates the consumption of American cotton by domestic and foreign mills in the year ended July 31, at 11,250,000 bales, as against 12,600,000 in the previous year, and estimates the carry-over at 2,319,000 bales, against 2,574,000 last year. According to a government survey the cotton mills of this country averaged only 60 per cent of their capacity in July, the lowest percentage on record, and their operations have been light for some months. The high price of spot cotton as compared with the new crop deliveries has discouraged purchases and production. Buying of cotton goods has been on a hand-to-mouth basis all over the world for several years, and this creates a presumption that with a general revival of trade, 13,000,000 bales of American cotton would be readily consumed in a 12-month. It has been pretty clearly demonstrated that the price is a big factor in cotton consumption.

Pacific Slope Crops

The grain crops of the Pacific slope and some of the fruit crops have been seriously affected by the drought from which that region has suffered throughout the year, and which not only reduced the rainfall in its season but the supply of water in the irrigation systems throughout the crop season. Our report upon California, and comparison with last year, is as follows:

CALIFORNIA

Crop	1923
Barley—1,095,000 acres yielding 33,000,000 bushels. (30 bushels to an acre.)	
Oats—162,000 acres yielding 5,265,000 bushels. (32.5 bushels to an acre.)	
Wheat—746,000 acres yielding 16,157,000 bushels. (21.6 bushels to an acre.)	
Indian Corn—4,480,000 bushels.	
Beans—299,000 acres yielding 4,694,000 bushels. (15.7 bushels to an acre.)	
Apples—8,450,000 bushels.	
Pears—128,000 bushels.	

CALIFORNIA—Continued

Prunes—80,000 tons.
 Peaches—380,000 tons.
 Cherries—14,500 tons.
 Crop 1924 Estimate.
 Barley—504,000 acres yielding 9,979,000 bushels.
 (20 bushels to an acre or less.)
 Oats—70,000 acres yielding 1,528,000 bushels.
 (20 bushels to an acre.)
 Wheat—318,000 acres yielding 3,929,000 bushels.
 (13 bushels to an acre or less.)
 Indian Corn—3,998,000 bushels.
 Beans—173,000 acres yielding 1,969,000 bushels.
 (12 bushels to an acre or less.)
 Apples—8,896,000 bushels.
 Pears—120,000 tons.
 Prunes—100,000 tons.
 Peaches—313,000 tons.
 Cherries—13,500 tons.
 Wine and Table Grapes—One-fourth below normal.
 Raisin Grapes—Two-fifths below normal.

UTAH

Crop 1923
 Winter wheat—148,000 acres yielding 2,945,000 bushels.
 Larger acreages of oats, barley and rye
 but smaller yields expected in 1924.
 Sugar Beets—83,000 acres, yielding 1,075,000 tons.
 Crop 1924 estimate.
 Winter wheat—149,000 acres yielding 1,743,000 bushels.
 Spring wheat—One-tenth less acreage, yield will be
 one-third smaller than 1923.
 Sugar Beets—98,000 acres yielding 780,000 tons.
 Utah fruit prospects not so good as in 1923.

NEVADA

Crop 1923
 Wheat—507,000 bushels.
 Crop 1924 Estimate.
 Wheat—355,000 bushels.

WASHINGTON

Crop 1923
 Apples—31,357,000 bushels.
 Crop 1924 Estimate.
 Apples—21,197,000 bushels.

Live Stock

Hog markets have dropped back from the highest figures made in July, but prices are now about on a parity with those of corn. Notwithstanding that slaughtering in 1923 were nearly 25 per cent over those in 1922, the first six months of 1924 made another high record. Receipts at sixty-five markets in June and from January to June inclusive, of cattle, hogs and sheep, were as follows:

	June		Six Months Ending June	
	1924	1923	1924	1923
Cattle	1,673,428	1,629,282	10,215,337	10,005,086
Hogs	4,296,396	4,204,101	29,411,959	27,771,207
Sheep	1,549,997	1,425,889	8,718,124	9,099,054

All market reports have much to say about the number of thin grassy hogs and cattle in the receipts. They show the unwillingness of farmers to finish the stock with high-priced corn. James E. Poole, an experienced livestock reporter writing from the Chicago yards to the "Producer," organ of the American Live Stock Growers' Association says:

Hogs would have advanced thirty days previously had it not been for the advance in corn, which kept the market glutted with pigs and underweights:
 A high market for good hogs naturally pulls less desirable grades up with it, but a wide spread between quality and mediocrity is inevitable. Good

hogs get competition, while the big packers take the others at their own price. When shippers were paying around \$11 for good hogs late in July, packers bid \$8.50 for packing sows and grassy mixed stuff. At this season trash is always plentiful—nature seems to have ordained it.

There is nothing about the situation or the prospect to discourage those located to grow hogs economically. Stocks of meats and lard are anything but burdensome, other meats are relatively dear, and the American people are pork-eaters.

One of his comments upon the big rise is significant as to the suggestion of market control. He says:

The significant phase of the episode is that the big packers were not responsible even in a remote degree. They resisted the advance persistently and consistently, bidding \$1 under asking prices during the pyrotechnical display. Their smaller competitors, who continue to display surprising virility, set the pace, and were apparently able to merchandise the product at a profit.

Twelve-dollar light hogs are a September possibility. After the strenuous liquidation of the past six months, the country cannot be in position to continue the heavy movement, although the big packers have been skeptical of material subsidence in the movement right along.

Of cattle he writes:

Naturally it has been, and will be, an erratic market, with weekly fluctuations of 50 cents to \$1 per cwt. The advance that carried corn to \$1 per bushel had the logical effect of dislodging steers by the hundred thousand prematurely, but by the end of July the residue of the summer crop of beef was in strong hands. During the latter half of July values of the bulk of steer cattle advanced about \$1 per cwt., yearlings getting the full strength.

Total exports of beef products in the twelve months ended with June, 1924, were 120,224,554 lbs. as against 135,470,850 lbs. in the corresponding period preceding. It is very noteworthy that of these totals oleo oil supplied 92,965,000 lbs. in the former period and 104,956,000 in the latter. While fresh beef supplied only 3,819,168 in the former period and 4,000,000 in the latter. Beef is no longer an important article of export from this country.

On the other hand, exports of pork products for the twelve months ended with last June aggregated 1,942,000,000 lbs., against 1,807,000,000 in the previous twelve months.

Profits and Losses in Industry

We gave some attention in our last Monthly Letter to the general charge against the industries of the country made by the radical political leaders, that by means of combinations exercising control over production and prices, "in mining, manufacturing, transportation and all important business enterprises," the cost of "housing, warming, clothing and feeding the American people has been doubled and trebled in the last twenty-four years."

Such representations as these have an importance far beyond the results to any candidates or political parties in this campaign. They tend when insistently repeated and not effectively refuted to offset the body of public

opinion, permeating all parties, and thus to alter fundamentally our social organization. The modern organization is based even more upon confidence in economic law than upon confidence in individuals. We cannot know much of the many individuals with whom directly and indirectly we have economic relations and must depend upon the beneficent operation of the economic principles by which all our progress in the past has been guided. If we turn from this system there is no recourse but to a vast system of governmental regulation, tending incidentally to bureaucratic domination and the loss of individual freedom, initiative and efficiency.

That a general rise of prices has taken place since 1900 and particularly since 1914 is of course well known to everybody, and most people are aware that it has occurred all over the world. It is one of the astounding exhibitions of politics that a candidate for high office attempts without qualifications to represent this rise as due to combinations among producers.

The public is familiar with the manner in which prices and wages rose together during the war and the two years following, and with the fact that wages, which are the principal factor in industrial costs, have been generally maintained at or near the peak. In our discussion last month we showed by unimpeachable authorities, mainly government documents, that in practically all the industries named the rise of prices for the products had been less than the rise of wage rates. It is a highly significant fact that the managers of these industries by means of improvements in industrial methods and increased investment in labor-saving equipment, have been able to absorb a large part of the increasing wage-costs and have saved the pockets of consumers to that extent. This result of energy and enterprise relieves industrial management from responsibility for such increase as has taken place.

It is in order in this connection to give some information about the profits of these leading industries in the time of reaction since 1920, and fortunately reliable information is at hand in the public document entitled "Statistics of Income," issued by the Commissioner of Internal Revenue, and giving by industries the returns of all corporations doing business in the year 1921. This is the latest year for which the official income statistics are available. Anyone who wishes to verify the figures given below can do so by sending for this official pamphlet. It may be found, and also the reports for earlier years, in most public libraries. Our space is limited, but the following figures as to the more important industries, and particularly those engaged in

"housing, warming, clothing and feeding the American people," are authentic.

Corporations Manufacturing Food Products

Corporations manufacturing flour, meal and feed numbered 1,732, of whom 672 reported net incomes, aggregating \$21,411,142, upon which they paid Federal taxes aggregating \$3,130,235. The remaining 1,053 corporations reported net losses, which aggregated \$21,415,619. Deducting the Federal taxes paid by the first group, the final net result to the milling industry as a whole was about \$3,000,000 below zero. These corporations, moreover, did better in 1921 than in 1920, when the profit-making group had net incomes aggregating \$22,654,404, upon which they paid Federal taxes aggregating \$4,205,584, while the deficit-making group had losses aggregating \$43,153,109. In this connection we would furthermore remind the reader of the official audit of the North Dakota state-owned flouring mill, appearing in our July Letter, which showed that from October 23, 1922, to December 31, 1923, this enterprise ran behind in the sum of \$311,577.54 upon its share of the flour business.

The milling industry, however, has fared better on the whole than the meat-packing industry. The number of corporations reporting in this industry in 1921 was 506, of whom 315 reported net incomes, aggregating \$24,754,868. The remaining 191 corporations reported losses, which aggregated \$73,188,479. After paying their Federal taxes, which aggregated \$3,689,441, the net incomes of the profit-making group aggregated less than one-third the losses of the deficit-making group. Apparently the big packers suffered more than the small ones, which would be the natural result of their larger stocks of products on hand.

Since the meat-packers are more often named than possibly any other group, as able to "get" the public both going and coming, it may be well to add here that in 1920 the profit-making group had net incomes aggregating \$12,558,341, while the deficit-making group had losses aggregating \$26,438,149; and that in 1919, the net incomes aggregated \$21,888,865, while the net deficits aggregated \$47,701,573. Revenue statistics are not available for any year since 1921, but everyone familiar with the annual reports of the packing corporations knows that the industry as a whole has not had even a moderately good year since 1918, when the aggregate of net incomes was \$30,945,576, of which \$11,506,057 went for Federal taxes, and the aggregate of deficits was \$1,293,055.

The meat-packers, however, got off easy in 1921 in comparison with the sugar-makers.

The latter, including beet-sugar factories and cane-sugar refineries, numbered 201, of whom only 37 reported net incomes. These incomes in the aggregate amounted to \$6,363,403, upon which the Federal taxes amounted to \$1,304,723. The other 164 companies all had losses, aggregating \$89,059,008. These figures explain the great decline in the stocks of the sugar companies. The common stock of the American Sugar Refining Company, which sold in 1920 up to \$142 per share, is selling now at about \$45, having paid no dividends since 1920. So much for the "sugar trust."

Corporations engaged in canning fruits and vegetables, numbered 905, of which 328 reported net incomes aggregating \$8,905,728, on which the taxes aggregated \$1,952,011. The remaining 577 companies reported losses, aggregating \$15,484,399.

Corporations engaged in canning and preserving fish numbered 226, of whom 50 reported net earnings of \$486,614, upon which they paid taxes aggregating \$66,420. The remaining 176 companies reported losses of \$15,670,897.

The foregoing are the principal groups engaged in manufacturing or preparing food products, and include the ones against whom the charge of monopoly or price-control is most often made. They fared worse than the groups in which business was mainly in the hands of smaller concerns. In the entire group of corporations classified together as manufacturing food products, drinks and tobacco, numbering in all, 13,777, there were 7,207 having net incomes aggregating \$319,176,273, upon which they paid taxes aggregating \$65,676,304. After deducting the Federal taxes paid by the first group from their net earnings, this group had net earnings of \$254,499,969, against aggregate losses for the second group of \$309,161,987. In other words, this class of industries, as a whole, suffered a net loss of \$54,662,018 in 1921, in supplying the American people with food, soft drinks and tobacco.

Coal, Oil and Metal-Mining

We have heard much in recent years about the "coal barons," and their ability to fix prices to suit themselves. The number of coal-mining companies making returns for 1921 was 3,656, of whom 1,079 reported net incomes aggregating \$82,654,787, upon which they paid taxes aggregating \$15,219,444. The remaining 2,577 coal-mining companies reported losses aggregating \$72,521,815. Subtracting the sum of the Federal taxes from the aggregate earnings of the first group, it appears that the net results of the year's operations to this group lacked about \$5,000,000 of equaling the losses of the second group. The coal industry, as a whole, did not get an even break in that year,

and when the figures for 1922, 1923 and 1924 are ready for publication it probably will be found that this has been the case also in at least two of these years. So much for the corporations engaged in "warming the American people."

The oil companies also are commonly named as a group working harmoniously together, exploiting at once the natural resources and the public. The number of these making income returns in 1921 was 2,608, of whom 773 reported profits aggregating \$57,950,074, upon which they paid Federal taxes aggregating \$10,306,674. The remaining 1,835 oil companies reported losses aggregating \$139,884,645. The oil industry has not had a good year for profits since 1920, having had to deal with the problem of constantly increasing supplies.

The copper-mining companies, a group that has been represented as able to control prices or shut down, as may suit them best, reported to the number of 149, of which 12 had profits aggregating \$141,924. The remaining 137 reported losses aggregating \$51,973,346. In 1920, the profit-making group had aggregate net incomes of \$3,415,944, and the deficit-making group had an aggregate deficit of \$24,553,886. In 1919, the profit-making copper companies had net incomes aggregating \$10,490,792, while the deficit-making companies had losses aggregating \$10,051,758.

The total number of mining companies reporting for all branches of the industry in 1921, including the metals, coal, iron, oil, etc., numbered 16,108, of whom 3,630 reported net incomes aggregating \$171,556,473, upon which they paid Federal taxes aggregating \$29,769,261, leaving \$141,787,212 in their possession. The remaining 12,478 mining companies including oil, reported net losses aggregating \$407,284,812.

Lumber, Paper and Pulp

Corporations making saw and planing-mill products reported to the number of 3,366, of whom 1,475 reported incomes aggregating \$38,722,938, upon which they paid Federal taxes amounting to \$5,762,634. The remaining 1,891 companies reported losses aggregating \$76,359,114.

All corporations manufacturing lumber and lumber products, including furniture, auto, carriage and wagon bodies, numbered 6,733, of whom 2,984 had profits aggregating \$70,511,051, upon which they paid taxes aggregating \$11,247,073, leaving them a net of \$59,263,978. The remaining 3,749 companies had net losses aggregating \$120,219,887.

In paper, pulp and paper products, 1,676 companies reported, of whom 730 had net incomes aggregating \$44,881,837, upon which they paid Federal taxes aggregating \$7,584,062,

while the remaining 946 companies reported losses aggregating \$49,178,592.

Logging companies reported to the number of 364, of whom 138 reported profits aggregating \$2,816,401, and 226 reported losses aggregating \$6,666,787.

Leather, Rubber and Products

Corporations reporting in the leather and leather products industries, including boots and shoes, gloves, saddlery, valises, etc., numbered 2,154, of whom 981 had net incomes aggregating \$57,064,636 upon which they paid Federal taxes aggregating \$11,814,847, leaving them a net of \$46,249,789. The remaining 1,203 companies reported losses, aggregating \$105,909,355. Moreover these companies had about the same kind of a year in 1920, when the profit-making group had net incomes aggregating \$46,216,818 after Federal taxes, and the remaining companies had net losses aggregating \$103,921,945. The leather industry has made but slight recovery since 1921.

The rubber companies have about the most mournful tale of all. The number reporting is 641, of whom 196 reported profits aggregating \$5,101,673, on which they paid Federal taxes aggregating \$815,468, leaving a net of \$4,286,205. Against this the remaining 445 companies reported losses aggregating \$101,561,735. It was not the first bad year for the rubber companies, for in 1920 the profit-making group had aggregate net incomes of \$26,677,976, upon which Federal taxes were \$3,748,472, while the remainder had net aggregate losses of \$31,575,079. Moreover, the rubber companies have been in the dumps continuously since 1921.

Metal Manufacturing, Including Iron and Steel

Of 100 corporations engaged in smelting metals from ores or in refining operations, 19 reported profits of \$489,787, and the other 81 reported losses aggregating \$17,205,099.

Of 2,574 companies manufacturing general or stock products or forms made in foundries and rolling mills, 881 reported profits aggregating \$39,284,930, upon which they paid Federal taxes aggregating \$5,640,884, leaving a net of \$33,644,046, while the remaining 1,693 reported losses aggregating \$121,572,283.

Of 1,479 makers of agricultural machinery, steam appliances, construction machinery, etc., grouped together, 554 reported profits aggregating \$27,314,460, upon which they paid \$4,143,528 in Federal taxes, and the remaining 925 reported losses aggregating \$84,307,188.

Including the above, the total number of corporations reporting in the manufacture of all metals, was 15,536, of which 5,468 reported net earnings of \$437,366,860, upon which they

paid \$90,307,720 in Federal taxes, while the remaining 10,068 companies reported losses aggregating \$666,001,897.

Clothing and Textiles

In the clothing industry, 6,161 corporations reported, of whom 2,819 reported net incomes of \$65,050,616, upon which the Federal taxes amounted to \$12,954,843, leaving a net of \$52,095,773. The remaining 3,342 companies reported losses aggregating \$80,788,402.

The total number of corporations reporting in textile fabrics and products other than clothing was 10,872, of whom 5,312 reported net incomes aggregating \$327,356,083, on which they paid Federal taxes aggregating \$67,216,070, while the remaining 5,560 reported net losses aggregating \$189,439,330.

Public Service Corporations

Corporations engaged in selling services, as distinguished from commodities, as railroads, street car companies, lighting and power companies, telephone companies, etc., do not show as heavy losses as manufacturing companies generally, for one reason because they did not suffer as much from the depreciation of inventories. Other reasons are that they met the falling off of receipts in part by drastic reduction of maintenance expenditures, and in some instances were able to get prompt permission to increase charges. The gross earnings of the steam railroads fell off about 25 per cent, and of the 609 companies reporting, 268 reported net incomes and 341 reported deficits. The net incomes aggregated \$291,113,607, upon which they paid Federal taxes aggregating \$29,650,857, and the deficits aggregated \$323,368,793.

The grand total for transportation and all other public utility corporations shows 19,105 returns, of which 11,831 reported net incomes aggregating \$821,871,454, upon which the Federal taxes were \$101,021,765, while 7,274 reported deficits aggregating \$323,368,793.

Corporations in Trade and Service

Corporations engaged in trade, wholesale, retail, commission business, etc., numbered 88,179, of whom 42,809 reported net incomes aggregating \$571,945,297, upon which the Federal taxes were \$96,742,515. The remaining 45,370 corporations reported losses aggregating \$626,828,343.

Corporations conducting hotels, restaurants, laundries and other services of the kind fared better, for the obvious reason that they did not take heavy losses on stocks and were able to promptly adjust their charges. Of 6,205 such companies, 3,852 reported net incomes aggregating \$52,331,986, while 2,353 reported losses aggregating \$16,794,367.

The same was true of corporations operating theatres, of whom 2,233 reported net incomes of \$27,069,446, and 1,985 reported losses aggregating \$12,855,622.

Banking, Insurance, etc.

In "banking and related business" the number of reporting corporations was 77,920, of whom 51,293 reported net incomes aggregating \$573,873,438, upon which the Federal taxes were \$59,071,700, while 26,627 reported that the net results of their year's business had been losses, aggregating \$169,626,660.

The insurance companies did not fare so well as the banks. The number reporting was 2,010, of whom 1,110 had net incomes, aggregating \$127,797,828, upon which they paid Federal taxes aggregating \$12,670,544, while the remaining 1,209 all had net losses, aggregating \$142,453,429.

Agricultural Corporations

Corporations play a comparatively small part in agricultural operations, but 7,428 corporations engaged in cotton, grain, fruit and live stock production and other farming operations, made returns. Of these 2,684 reported net incomes, aggregating \$34,266,175, on which they paid taxes aggregating \$5,099,604, leaving a net of \$29,166,571, while 4,744 reported net deficits, aggregating \$63,334,248.

All Corporations

The grand total of corporations reporting numbered 356,397, of whom 171,239 had net incomes, and 185,158 had net deficits, in the year 1921. The aggregate of net incomes was \$4,336,047,813, upon which the Federal taxes were \$701,575,432, leaving a net of \$3,634,472,381. On the other hand, the aggregate of losses in the second group was \$3,878,219,134. Thus the consolidated net result of the operations of all the corporations in the United States in 1921, after the payment of Federal taxes, was a loss of \$243,747,753.

For 1920, the grand total of reporting corporations was 345,595, of whom 203,233 reported net incomes aggregating \$7,902,654,813, upon which the Federal taxes were \$1,625,234,643, while the remaining 142,362 corporations reported net deficits aggregating \$2,029,423,744.

For 1919, 320,198 corporations reported, of whom 209,634 reported net incomes aggregating \$9,411,418,458, upon which they paid Federal taxes aggregating \$2,175,341,578, while the remaining 110,564 corporations reported losses aggregating \$995,546,241.

Significance of the Income Returns

Here is the answer of authentic facts to the persistent misrepresentation of the industries and business of the country since 1920.

These figures have not been prepared for campaign purposes. They are from the official publication of income returns, made under oath and individually reviewed and checked by Treasury agents. Because of the scrutiny given them, there is reason to believe that less evasion occurs in the large returns than in the small ones.

What basis or excuse remains after the publication of these figures for the charge that the large business interests combined in 1920 to force deflation upon the farmer, to maintain their own prices and profits, and to exploit the farmers and wage-earners generally?

It may be said that 1921 was an exceptional year and does not give a true picture of average industrial profits. Of course this is true; it would be impossible for industry and business to survive through many years like 1921. The effect of such years is general retrogression in the national life. But the present attack on industry and business is on account of conditions existing since 1920, and particularly for the fall of prices, which occurred in 1920-21. Big business is alleged to have planned it and profited by it. We gave last month an extract from Senator Brookhart's speech to the Brotherhood of Locomotive Engineers, which is similar to the speeches being made daily by him and others of his type over the country. While the charges are inherently preposterous, these official figures give a complete refutation.

The truth is that the crisis of 1920-21 was a world-wide convulsion, disastrous in all countries and to all interests. It was caused by an inevitable readjustment of economic conditions, which had been abnormal since the outbreak of the great war. The world had sown the wind and had to reap the whirlwind. Nothing could be more unreasonable than the supposition that the wild state of "prosperity" which rising prices had created from 1914 to 1920 would be a permanent result of the war.

These official figures show what the business men of the country were passing through in 1921. Burdened with responsibilities, struggling for self-preservation and to keep the industries going, they were, and have been ever since, under attack on the foolish charge of having deliberately attempted to ruin the country. Unfortunately, in every crisis through which the nation passes, just when there is the greatest need of unity and wise counsels, when every ounce of strength should be conserved and all the lessons of the past should be utilized, there is the greatest danger of dissension, recrimination, and the revival of ancient heresies—all tending to demoralize business and delay recovery.

All over the country, men have been running for office on the representation that mys-

terious "interests" had brought hard times upon the farmers and wage-earners, for their own profit. Possibly, they have believed it, in ignorance, but this plea cannot be made in view of the above showing of losses. Where are the "interests" that have been profiting?

European Settlement

The conference of allied premiers, first among themselves and then with the representatives of Germany, which began in London on July 16th came to an end on August 16th, with an agreement for putting the Dawes plan into effect.

The closing scene indicated a much more conciliatory and hopeful state of feeling than has prevailed among the negotiating parties at any previous time. Mr. McDonald, the British premier, said it was "the first actually negotiated treaty since the war"; the German premier expressed the hope that in the future "the spirit of peace and conciliation which has inspired this conference will remain unchanged"; and the French premier, said "We now see the dawn, and we hope to work until daylight is reached."

The Dawes plan was adopted without change, but certain supplementary agreements were attached for carrying it into effect, extending the terms and defining some of the powers of the executive commissions. One of the most important of the new provisions is that for an additional member of the Reparations Commission, for or from the United States. If the United States government does not respond to an invitation to appoint an official member, the Commission itself is directed to appoint one who shall be an American citizen and who shall act with the Commission whenever it is deliberating upon any matter related to the Dawes report. If the Commission is not unanimous in the selection of this member, the appointment shall be made by the President for the time being of the Permanent Court of International Justice at the Hague.

In the case of an application by any of the signatory powers that Germany be declared in default upon any of her obligations under the agreement, the Reparations Commission is required to render a decision, and in case the decision is not unanimous, any member of the Commission who has participated in the vote may within eight days thereafter appeal to an arbitral commission, which is now created. The members of the arbitral commission shall be appointed for five years by the Reparations Commission, or, in the event that it is unable to act unanimously, by the President of the Court of International Justice at the Hague. The president of the arbitral commission shall be a citizen of the United States.

Provision is also made that in the event of disagreement in regard to several other specified matters, resort shall be had to arbitration, the arbitrators in each case to be named by agreement or upon failure to agree by the President of the Hague Court.

The paragraph as to the foreign loan is as follows:

In order to secure the service of the loan of 800,000,000 gold marks contemplated by the experts' plan, and in order to facilitate the issue of that loan to the public, the signatory Governments hereby declare that in case sanctions have to be imposed in consequence of default by Germany, they will safeguard any specific securities which may be pledged to the service of the loan. The signatory Governments further declare that they consider the service of the loan as entitled to absolute priority as regards any resources of Germany, so far as such resources may have been subjected to a general charge in favor of said loan and also as regards any resources that may arise as a result of the imposition of sanctions.

The next question of Ruhr occupation is settled by agreement that the French and Belgian troops shall be fully withdrawn within one year, that the forces shall be reduced at once, and that the economic unity of Germany shall be promptly restored.

Unsettled Questions

It would be too much to say that provision has been made against all possible disagreements, and that everybody is going to be satisfied with the results of the Dawes plan. The plan is largely experimental, a scheme for an undertaking the like of which never was attempted before, but it has been before the world for more than four months, and nobody has been able to find any serious fault with it. The most common criticism of the plan has been on account of its not determining how long the payments should continue or what the aggregate should be, but the Conference itself has not dealt with these matters. The newspaper reports have not indicated that any attempt was made by either side to determine them. Perhaps there was tacit agreement that this was too big a question for the present time and that it was best not to make a beginning without dealing with the ending. Under the Versailles treaty the determination of the sum was placed with the Reparations Commission, but the agreement of 1921 fixed the sum at 132,000,000,000 gold marks. This sum appears to stand, subject to action by the Reparations Commission. The amortization arrangement upon the railway and industrial bonds will extinguish them in 37 years, and the bond payments constitute about 40 per cent of what the Dawes plan calls the "standard" annual payment. Evidently further action will be necessary to determine the total amount.

The Great Experiment

As already said, the plan is a great experiment. There is no precedent for the payment of sums of this magnitude where the payments run one way and no offsets are available. These payments are outside of trade, which has a natural tendency to settle itself. Over and above its regular foreign trade settlements, Germany must export goods or services to cover the obligations of this agreement.

There is great disagreements among people who have standing as experts about Germany's ability to make the payments, and about the probable effects of such payments, if they are made, upon the industries and trade of other countries. Considering first the ability of Germany to pay, it is evident that this will depend upon high production by the German industries coupled with low consumption by the German people, thus enabling a great industrial product to be exported. Following the analysis farther, it probably means long hours in the industries, or at least the working day which will yield the largest product. The late Hugo Stinnes insisted that Germany must go back to the 10-hour day in order to pay reparations. The 10-hour day was the rule in Germany before the war, and the country had no excess of merchandise exports over imports then. Its problem now is to create a very large excess, hence it must produce more and consume less. In order to produce more and begin at once, longer hours would seem to be the only sure resort. Invention and improved methods are the best way of increasing production, but their results are incalculable, and anyway take time. Moreover, they require capital accumulations, which will be difficult to make in Germany. But besides increasing production it will be necessary to reduce consumption, or at least prevent consumption from increasing to correspond with production, for it is a surplus of production and of exports that is required. In order to hold down consumption it will be necessary that wages shall be low as compared with the cost of living, which may be accomplished either by means of low money-wages or by taxation which raises the prices of everything the people have to buy. Taxation is the method by which the government takes over the share of production which must go for reparations.

Briefly stated, these are the conditions which must be imposed in order to create a large surplus of exports over imports. Economists describe them very simply, but can they be put into effect as easily as they are described? The German government promises to do it, but if the 10-hour day is necessary, can the government compel the workmen to accept it, and if lower wages or a lower standard of living are required in Germany than in neighbor-

ing countries, will the masses of the German people accept them and work as cheerfully and efficiently as in the past? These are crucial questions.

It is necessary to consider the possibilities of misunderstanding, of misrepresentation, of social and political agitation working upon class suspicions and prejudices. The workmen might be willing to work long hours and accept a lower standard of living if they thought these conditions really necessary, but there will be plenty of people to tell them that such conditions are not necessary—that the employers are making fools of them, and that the rich are scheming to get off without paying. Who can foretell what the outcome will be?

Effects Upon World Trade

In case Germany demonstrates her ability to create a surplus of exports over imports sufficient to meet the reparation payments, what will be the attitude of other countries toward such a volume of German exports and what the effect upon business elsewhere? Economists whose opinions are entitled to respect are able to dispose of the difficulties which some people apprehend, as easily as they show how Germany can create her surplus of exports. Arranged by them on paper there does not seem to be any problem. And yet in the countries adjoining Germany, particularly among business men producing the same kind of commodities which must constitute the chief exports of Germany, no little concern is manifested. Evidently the British industries are apprehensive of severe competition, for the British Prime Minister has announced that he will appoint advisory committees representing the principal industries, to confer with the government.

The reason for this apprehension is that the principal industries of Germany are of the same character as the principal industries of Great Britain, and this is true of other countries as well. Germany's increased exports must be of products like the products of other countries. How many such products can the markets take? It is an economic truism that there is no possibility of over-production, provided production is well-balanced. It is all a matter of balanced demands and offsetting exchanges. If it were possible to increase all kinds of production simultaneously, the aggregate might be doubled, provided all kinds came on the market in the right proportions, and there would be no disorder; the world would simply move up to a higher standard of living. If this is what Germany's increased exports will mean, there is nothing to fear from them; but will the supply of all kinds of goods and services increase in the right proportions and be ab-

sorbed without disturbances? This is what business men are not sure about.

On the other hand, it is true that the credits created around the world by the surplus of German exports will be turned over to the allied countries, constituting the reparation payments. They will constitute purchasing power to be used by the allied countries instead of by the German people. Why then should there be any more disturbance than if there were no reparation payments?

The whole question turns upon the degree of abnormality in the situation. It is the abnormal developments that disturb the industrial balance. Are the offerings of the principal German industries—iron, steel, machinery and the textiles—going to be greatly in excess of their offerings in the past, and if so what will be the effect upon those particular industries in other countries, and what will other countries do about it? Also, what will the purchasing power created by these reparations payments be used for, and to what extent will such purchases provide employment for workmen who might be thrown out of employment in other industries? Workmen do not change employments readily, but prosperity in one industry tends to make employment in other industries.

Enough has been said to show that the situation has many complications, for it will be affected not only by the legitimate effects but by what the people of different countries think are likely to be the effects, as this country was influenced to pass the Fordney act and as the British government has been moved to appoint industrial committees.

Germany Short of Capital

It is also to be considered in this connection that Germany may require considerable time to get into full productivity. While her industries are understood to be generally equipped for a larger production than ever before, the country is financially weak. There is a great shortage of working capital, as prevailing interest rates show. This is the result of having practically wiped out bank deposits and the entire creditor class by the depreciation of the currency. The saving class has been exploited and saving discouraged. The country must start in again to encourage saving and build up a new savings fund. The industries cannot run full without more working capital than the country possesses. It will take a long time to accumulate what is required, and immediate relief must come by attracting foreign capital with high rates of interest and by inducements to invest in the industries. But as an offset to any inducements that can be offered there will be the high taxes to pay reparations, and the danger of

labor troubles and socialistic agitation arising from the conditions heretofore mentioned. German industry will have a hard time conquering the world on 25 per cent interest, and German socialism will have a fine chance to study the law of supply and demand in relation to capital and the interest rate. Here again there rises the question as to what public opinion will do. We know enough about politics in this country to expect a holy crusade against high interest rates. If Germany had not just received a very costly course of instruction upon the difference between paper money and capital, we might expect proposals to start up the printing presses, but the Germans probably are immune to that heresy for the present. Will it be possible, however, to maintain returns upon capital in Germany at least high enough to attract outside capital, simultaneously with low wages and high living costs? Is it possible to either suspend the economic law in Germany or make everybody understand it? At this writing the rate of Discount at the Prussian State bank is 13 per cent for the highest class of paper, and at the Reichsbank, 12 per cent.

Position of the United States

So far as the United States is concerned, it seems probable that the revival of Germany will have a direct effect in increasing that country's demands upon us for such raw materials as cotton and copper and probably for meats. Unquestionably competition will be sharper in the lines of manufacturing in which Germany is proficient, and the effect of sharp competition in world markets will be to lower industrial costs and prices.

In one of the lines in which Germany is proficient, however, the manufacture of electrical equipment, the world demand is likely to be large enough to keep the capacity of all countries fully employed for years to come.

In the long run, however, and when the readjustments required to restore the world's equilibrium have been made, the recovery of Germany unquestionably will be generally beneficial. Whatever disturbance there may be will result from the fact that new and strange conditions are created, and that readjustments are necessary. The tendency always is back to normal.

Conference on Inter-Allied Debts

Naturally, France is much concerned about the inter-allied debts, and another conference upon this subject will be held in the near future. It is probable, however, that some time will elapse before much is done on that line. All of the obscurities of the reparations question hang around the inter-allied debts as well, and since some of them are likely to be cleared

up as progress is made with reparations, why not allow the situation to drift? Few countries have begun payments upon the debts, and none of the creditor countries are pressing. As to the payments that are made in the interim, at most they will be a small factor in the whole problem, and probably nobody contemplates sweeping cancellations.

International Business and Politics

We quoted in the August Letter a statement by the Secretary of State, Mr. Hughes, made in a recent address at Amherst College, in which he referred to the charges loosely made by irresponsible persons, but widely repeated, to the effect that the policy of the United States government in foreign affairs at times had been directed with a view to forwarding the interests of concession-hunters, and particularly of oil companies. We reprint herewith that portion of his statement which referred to the Lausanne Conference:

There are those among us who try to make it appear that this Government is the agency of international bankers and concession hunters. What grotesque perversion it is! I notice, for instance, that there are those who still repeat the false statement that the position of this Government at Lausanne was determined by the Chester concession, a statement which I have repeatedly and unequivocally denied. As I have said, this Government took no part in securing that concession; this Government made no barter of its rights for this or any other concession.

The same type of scandal-mongers are busy in other countries, and while the Lausanne Conference was holding sessions, certain newspapers in several countries gave currency to gossip of this kind, referring to alleged policies of several governments. Recently a member of the British House of Commons repeated a newspaper utterance to the effect that Lord Curzon, the British Secretary of Foreign Affairs, had "spent a considerable portion of his time at Lausanne fighting on behalf of oil interests alleged to be British national interests," and challenged the Ex-Secretary to deny the charge. Another member interrupted to say that Lord Curzon never had repudiated the charge.

These utterances elicited a prompt response from Lord Curzon, the essential portion of which is as follows:

There is not a word of truth in the allegation, which I gladly satisfy Messrs. Johnston and Harney by repudiating now. As a matter of fact, if either honorable member had referred to the Blue-book on the Lausanne Conference, 1923, pp. 360-1, he would have seen the truth of the matter stated by me before the full Conference, and printed for the information of all. I there stated that during my tenure of the Foreign Office I had never spoken to, or interviewed or been interviewed by, an oil magnate; that I had never spoken to, or negotiated with, a single concessionaire or would-be concessionaire for the Mosul oil or any other oil; and that oil had not the remotest connection with my attitude or with that of

his majesty's Government on the Mosul question, or the Iraq question, or the Eastern question in any aspect.

I was not even cognizant at the time of the arrangement by which a British company, the Turkish Petroleum Company, had acquired a concession for the Mosul oilfields before the war, and had taken over the German interest in the company after the war, since at neither date had I any connection with the Foreign Office.

My share in the matter, when I became Foreign Secretary, was confined to the declaration that, so far as the British Government were concerned, we had not the slightest desire to claim for the British company any monopoly in the matter, and that we would willingly welcome the participation of other interested Powers, whether they were America or Turkey or Italy.

The above facts are well known to every one concerned with the case. I challenge contradiction on any one of them.

The fact that no proof can be given in support of the charges thus definitely denied by the officials in charge of foreign affairs of the United States and Great Britain, probably will not put an end to their circulation. Originating in irresponsible gossip, they will be passed on from one irresponsible conveyor to another, until by simple repetition the public has been made far more familiar with the charges than it is with the denials. This illustrates the process by which much public opinion is made.

Bankers at the London Conference

Off the same piece with the gossip about the Lausanne Conference is the talk about the influence of international bankers and their part in making wars. We referred last month to criticism directed at the London and New York bankers who had given advice to the public officials participating in the London conference upon the conditions of settlement necessary to enable Germany to obtain the contemplated foreign loan.

The conditions which they described as necessary to enlist the co-operation of international bankers were all calculated to protect the permanency of the settlement. They were clearly intended to safeguard not only the loan but the peace of Europe. The fact that they made suggestions, however, although invited to do so, was enough to start an outcry against the "dictation" of international bankers. Fortunately, in this instance the bankers have a witness in their behalf whose testimony cannot very well be discounted in the quarter from which such criticism usually comes. Mr. McDonald, Prime Minister of England and head of the Labor party of that country, rising in the House of Commons in answer to an inquiry as to the progress of the Conference, began his statement as follows:

I am happy to inform the House that on Saturday an agreement was reached between the Allies on certain matters arising out of the Experts' Report. (Cheers.) The documents embodying the agreements have been published in the Press, and are now being

scrutinized by a committee of lawyers. It may be convenient if I indicate the substance of our agreement.

The basis of the Experts' Report is the raising of a loan for Germany in order to put it on its feet economically and enable it to meet its obligations and re-enter the economic system of Europe. On the British and American markets confidence in the Reparation Commission as a judicial body for declaring default has been completely forfeited, and we were informed that so long as it could destroy the economy and credit of Germany by a declaration of default which, as a matter of fact, might not exist, the security for the loan would be of so little value that the loan would not be subscribed. It was not our business to arrange for this loan (that will be done in the ordinary way), but it was our duty to remove obstacles which would have made the loan fall dead on the money market.

I may take this opportunity of expressing my regret that it has been so often stated that the difficulties we encountered in this part of our work were created by bankers and financiers. They confined themselves to advising as to the state of mind of the investing public, and guided us against coming to agreements that would fail to produce the loan required. We are all much indebted to them for the information and help they gave us. The arrangement finally made was that a citizen of the United States shall be added to the Reparation Commission, chosen by the unanimous vote of the Commission, or failing that, the President of the International Court, as a full member of the Commission, when the question of default is under consideration. The Allied Governments bind themselves to take no sanctions until default has been declared after all the safeguards have been employed.

Premier Herriott made a similar statement in presenting his report of the Conference to the French Senate.

The fact that this international loan is deemed necessary to the settlement by all the participants in the Conference, including the Labor government of Great Britain, might be expected to protect the bankers who support it from the usual charge that they are plotting against the world's peace, but it does not. Already it is said that the bankers will be wanting the army and navy to collect the debt, and a demand has been raised that some kind of a pledge or notice be given that the military forces will not be used for that purpose.

The United States can make war only through the coordinate action of the Chief Executive and the Congress, and if the question of war-making ever arises in the future it is altogether probable that the responsible authorities at the time will have more regard for the public interests as they judge them, and for public opinion at the time, than for any dictum of their predecessors.

There is not the slightest reason to suppose that anybody is going to buy a German bond with the understanding that under any circumstances the army and navy of the United States will be used for its collection. If anybody imagines that the bankers will be in position to exert any influence with the United States government for action of any kind in connection with these bonds, he should get the idea out of his head, for there is not the

slightest reason to suppose that the bankers could exert any influence upon the government's policies in such matters if they wanted to. Moreover, these bonds will be sold, like other bonds, to investors over the country, and will be owned by the investors, not by the issuing bankers, to any important extent. This is true of all issues offered to the public through banking houses, and there should be no misunderstanding about it. Beyond the obligation to exercise their best judgment in the character of securities they offer, the bankers have no responsibility after the sales are made.

Wars Not Made for Debts

The United States government never has gone to war to protect the investments of its citizens in foreign countries, nor has war ever been made by any country that we know of in behalf of the investments of its people in foreign countries. Foreign loans and foreign trade have been subjects of disagreement and controversy: they are points of contact, and wherever people come in contact disagreements are likely to arise, antagonisms may develop, and where the antagonisms develop along national lines they may lead to war. Economic considerations are a very important factor in human affairs, within countries as well as between countries, and are likely to be as long as men strive for economic gains, but it is impossible to name a war of any consequence for the collection of debt.

In a few unimportant instances, of flagrant disregard of obligations, ports or custom houses have been seized as a means of effecting settlements, but in such cases the debtor governments have been in the hands of irresponsible authorities who chanced to dominate the situation but were not actually representative of the countries or amenable to any influence but force. As a rule, the considerations of mutual interest which ordinarily govern business procedure are sufficient to bring about agreement in cases of international indebtedness. A debtor country, if it has any ambition to hold a place in the society of nations, cannot afford to dishonor its credit, while the people of a creditor country, naturally desiring to retain the good-will and trade of a debtor country, will desire to satisfy their claims without interfering with its prosperity.

Banking and Business Interests Opposed to War

It is safe to say, not only that no war ever has been begun for the collection of debt, but that no war ever has been due to the influence of bankers or private financial interests. The people who imagine the contrary have a theory that conditions are more favorable to such interests in a period of wealth-destruction than

in a period of general wealth-accumulation, which of course is fundamentally untrue.

The banking and business interests are invariably opposed to war and in favor of the peaceful settlement of differences. They are instinctively in favor of order and against disorder and waste. They are accustomed to the amicable adjustment of differences. It is their constant policy to face realities as they find them, charge off losses as they meet them, and settle past mistakes and present difficulties with a view to clean books and good business in the future. Aside from the humane considerations, they know the cost, and also the utter futility of war so far as economic gains are concerned, and they know that the economic cost and waste eventually falls upon business and property. It is not too much to say that the reparation problem would have been settled years ago if it had been given to a committee of bankers and business men representing the countries involved, to be settled by their methods, instead of being involved in the politics of five nations, not including the United States.

German Internal Bonds

A considerable stir has occurred lately in German mark securities, particularly bonds of the Imperial government and the municipalities. Although the advance has not been much in relation to par values, it is a long way from nothing to something, and they have been changing hands quite actively.

The German courts have had before them for some time the question whether any redress could be given to the creditor class on account of losses suffered through the depreciation of the mark currency. Obviously, where obligations were created for value in terms of this currency before its depreciation began, the claimants are entitled to some recognition of their equities.

A recent number of the London Times contains a statement by Dr. Alfred Kaufmann, advocate of the city of Hamburg, in which he refers to the litigation and the action that has been taken by the courts and government, as follows:

Gradually the Courts realized that to refuse such recognition would have disastrous consequences for the economic conditions of the country. This conclusion was only finally reached towards the end of 1923 (when the paper mark was absolutely valueless), and there was hardly an action brought in Germany in which the fight for such recognition did not constitute the main point. The Reichsgericht, by its decision of November 28, 1923, declared that the principle of such recognition was justified, holding that it would be against every idea of justice for a debtor to settle his debt with valueless marks merely because the actual figures were the same as those of the original claim.

The Reichsgericht declared, however, that to set up a standard applicable to all cases—such as the proportionate value of the paper mark to the gold

mark—would not be admissible, but in order to reduce the number of existing cases, as well as those anticipated, in view of this decision, the Government decided to create a fixed basis, at least for certain categories of cases, by standardization. This was done in the Third Taxes Emergency Order (Steuer-notverordnung) of February 14, 1924, under the heading "Aufwertungsverordnung."

The "Aufwertungsverordnung" firstly, by fixing average rates, fixes the valuation of the mark for certain capital investments made in marks. These capital investments are enumerated specifically in ten groups in Clause I. of the decree. The most important for practical purposes are: Land mortgages (with or without a personal debtor), ship mortgages, stocks and bonds, which are revalued at 15 per cent of the original gold value.

The face value of such property acquired before January 1, 1918, is taken as its gold value; for such property subsequently acquired the gold value is fixed by recalculating the face value according to the mean rate of exchange between New York and Berlin at a critical date. The debtor is granted a moratorium until January 1, 1932, for payment of the capital so revalued. Arrears of interest are remitted and payment of interest recommences on January 1, 1925, the rate in the first year being 2 per cent and increasing by 1 per cent every succeeding year until a maximum of 5 per cent is reached.

In addition to the provisions already referred to, the "Aufwertungsverordnung" contains in paragraph 12 a kind of general clause in which it is stated that "other" capital investments shall not be revalued at a higher rate than 15 per cent. of their original gold value. For these "other" investments there is neither moratorium nor special provision with regard to interest.

At first sight the scope of this general clause seems to be extremely wide. On closer examination it will, however, be found that its sphere of application is surprisingly small. This fact is of the utmost importance, as the importance of the "Aufwertungsverordnung" lies in the limitations imposed. Cases not coming under this decree are not subject to any limitations of revaluation and can in certain circumstances be revalued up to 100 per cent of their original gold value.

The "Aufwertungsverordnung" only limits the revaluation of "capital investments" a term having first an economic and not a legal meaning. The consequence is that in all other cases than those covered by the enumeration in Clause I of the various forms of capital investments in the legal sense of the word, a court called upon to give its decision has first of all to decide whether the claim represents a capital investment.

Mutual contracts arising from joint undertakings, claims arising from compromises, division of estates, etc., are not capital investments, and their exclusion opens a large field for unlimited revaluation. The lawyer's statement continues:

Position of Loans

The legal position in the case of loans requires special explanation. A simple loan is not a mutual contract. It establishes only the obligation of one party to repay and eventually to pay interest, i. e., is unilateral. A loan may be given as a capital investment, but need not necessarily be so, which has to be decided in each individual case from an economic point of view. If it is a capital investment it is subject to the revaluation limitation; if it is not a capital investment it has to be fully revalued. Loans can, according to its terms or its specific nature, be a part or the result of a mutual contract, e.g., balance of purchase money left on loan, moneys credited as part share of an estate (Auseinandersetzungsguthaben), (Metasalden), sums credited in part payment or full settlement of any claim (Abfindungsguthaben). The loan has in any of these cases to be fully revalued according to Clause 12, paragraph 2, and it makes no difference whether the loan was collaterally secured by mortgage or not. In fact this latter prin-

ciple applies to all claims not subject to the revaluation limitation, as it would be unjustifiable to revalue a secured claim at a lower rate than an unsecured.

National Loans Excluded

The principles set out above do not, however, apply to holders of German national and municipal loans. Article 16 of the above order expressly stipulates that no claims shall be made in respect of national and local loans so long as the reparation debts of the German Republic continue in existence; but with a proviso for a possible reconsideration later in the case of local loans. This entire exclusion of certain existing national obligations by new obligations of uncertain amount and duration practically amounting to a cancellation of the former will probably be questioned as much abroad as in Germany. Whether such questioning will in the course of time bring about a juster solution of the problem depends as much on the economic state of Germany as on the course of political events.

Although the public loans are excepted from the provisions of this policy, the steps that have been taken and the expressions on the subject like Dr. Kaufmann's, together with

the agreement upon reparations, have created the speculative interest in these securities. Even though the reparations payments should exhaust the tax-paying capacity of Germany over the period of one generation, they will come to an end sometime, and these internal bonds may prove to have value as heirlooms.

On the other hand, it is to be considered that with the lapse of time these securities will tend to pass from the hands of original owners to speculators, to whose claims thirty or forty years hence the authorities may be quite indifferent.

The bonds are not absolutely worthless. Interest is being paid in paper marks, one trillion of which are now definitely equal in value to one gold mark, or 23.8 cents, and the pending bank bill under the Dawes plan provides for exchangeability with the new currency on this basis.

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